



**State of Louisiana**  
DIVISION OF ADMINISTRATION  
**OFFICE OF THE COMMISSIONER**

**M. J. "MIKE" FOSTER, JR.**  
GOVERNOR

**MARK C. DRENNEN**  
COMMISSIONER OF ADMINISTRATION

January 22, 2001

The Honorable Jerry Luke LeBlanc, Chairman  
House of Representatives  
Select Committee on Fiscal Affairs  
P. O. Box 44486, Capitol Station  
Baton Rouge, LA 70804

Dear Representative LeBlanc:

To develop our response for identifying the pros and cons of establishing a central collection function, we contacted those states which have a currently functioning statewide collection agency - Colorado, Kansas, Minnesota, South Dakota, and Utah. Input we received from contacts in these states proved invaluable in completing this project.

**PROS:**

- Collections of outstanding accounts receivable have greatly increased, providing additional funds for each state. Minnesota's collection agency has increased collections from \$3 million in 1994 to \$12 million in 2000; collections in Kansas increased from \$6.2 million in fiscal year 1996 to \$10.7 million in fiscal year 2000; and in Utah, old accounts receivable collections nearly doubled between fiscal year 1999 (\$1.4 million) and fiscal year 2000 (\$2.5 million).
- All five states report that their central collections agencies are self-funded. Kansas, Minnesota, Colorado, and South Dakota assess a percentage of the amount collected before monies are remitted to the appropriate agency. Utah adds 8% per annum to the principal outstanding as a penalty for having to use the state's collection agency.
- With the establishment of a central collections function, fees charged by outside collections agencies declined. Minnesota reported that fees charged by private collections agencies before their central collections function was created dropped from approximately 25% to 10%.
- Excess fees received by a central collection agency, once it is self-supporting, can be transferred to the General Fund or used by other internal collections functions. Utah, which charges a fee in excess of actual debt,

- reports funds in excess of amounts needed for operations are used to assist participating governments to improve their in-house collections function.
- Payments by debtors are becoming timelier. In Utah, insurance companies were delinquent in making damages payments to the state, sometimes taking two or three years to pay. When the central collections agency was created these old debts were submitted for collection. Central collections began aggressive collection procedures and the insurance companies began paying timely; when the state's collection agency becomes involved, they have to pay a penalty as well as the original debt owed.
  - Agencies with their own in-house collection sections focus on collecting current receivables and can turn over longer-term outstanding debts to the central collections agency. By not having to deal with older uncollected accounts, these agencies can concentrate on current amounts and improve the timeliness of collections.

**CONS:**

- One of the major items we note is that of the fifty states, only six have central collections agencies. We contacted all fifty states to find out how many had an established central collections function. We could not determine if any of these forty-four states are in the process of establishing such an agency at the statewide level. However, conversations with those states having a central collections function reveal that they have been receiving questions from governmental entities researching the possibility of establishing such a function.
- Friction from some of the agencies, especially the larger agencies with their own in-house collection staff. The assumption was made by these agencies that the legislature thought they were not performing their jobs adequately and created a central collection function to eliminate positions. Friction was also caused by state agencies contracting with outside collections agencies not wanting to give up or lose those contracts.
- Several of the states reported complaints from participating agencies that the fees charged were too high. This is because these states allow their central collections agencies to take a percentage of the amounts collected, causing the agency to receive less than the full amount of the original debt.
- Utah reported initial problems with one of their two outside collection agencies. This was due to the age of accounts initially turned over for collection and the percentage of these accounts that were uncollectible. The outside collection agency lost money and did not renew their contract with the state.
- All five states we contacted use outside collections agencies. The creation of a central collection function does not appear to end the need for

contracted collection agencies, it seems only to centralize the function of contracting with outside collections firms and provide another layer of collections activities.

One item that could be considered a pro and a con is that enabling legislation in most of the five states contacted encourages state agencies and departments to participate in the central collection agency but does not mandate participation. It should be noted that more state agencies and departments are participating in the program once it proved its usefulness. Participating state agencies and departments, including colleges and universities, submit defaulted student loans, hospital services, delinquent taxes, insufficient funds checks, library services, pension system overpayments, and delinquent child support payments to the central collections functions. Along with the increasing number of state agencies participating, several states have passed legislation that allows counties, municipalities, and district courts to participate in the state's central collection function.

Another pro and con item is using offsets to collect outstanding debts owed the state. Offsetting payments due from the state to debtors is an excellent method to reduce the amount of effort expended to collect the debt. However, as Minnesota pointed out, the central collections function needs to have the ability to access or interface with software used by all participants to monitor and ensure that allowable offsets are taken before a debtor receives payments. Offsetting would apply equally for vendors.

An impediment to a centralized entity will be available table of organization (T/O). If a new agency is to be established within the Division or any other state entity, a decision will have to be made to increase the T/O within that entity to accommodate staffing for the program. One possible alternative would be to staff a central collections agency with personnel from agencies with an existing in-house collection function or section.

Funding to establish a new agency will also have to be provided for at least one or two years until such agency can become self-supporting. With agencies of the Executive Department facing another budget cut in the not too distant future, funding may be difficult to find within general appropriations agencies.

Another consideration in establishing a central collections agency in Louisiana would be how this agency would become self supporting. Kansas, Minnesota, Colorado, and South Dakota take a percentage of the amount collected

Mr. Jerry Luke LeBlanc

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for services performed. Only Utah adds a "penalty" amount onto the total debt to be collected.

If you need clarification on any of these points or additional information, please contact Mr. Howard Karlton at 342-0708.

Sincerely,

A handwritten signature in black ink, appearing to read "Whitman J. Kling, Jr.", with a stylized flourish at the end.

Whitman J. Kling, Jr.  
Deputy Undersecretary

WJKJr:FHK:sis:kbp

Howard Karlton

FROM: Katherine Porche

DATE: February 1, 2001

RE: Statewide Centralized Collection Agency  
Size of Organization and Annual Operational Costs

States Surveyed		Annual Cost	Size of Organization	Job Titles
Colorado	FY 99	\$ 1,336,000	25 - 30	Collectors, Supervisors
	FY 00	\$ 1,128,000		Customer Representatives
				Legal, Program Director,
				Acct Technicians, IT Specialist
				Accountants, General Manager,
				Clerical, and Receptionist
Kansas	FY 99	\$ 556,852	9	Accountants, Accounting
	FY 00	\$ 554,383		Specialist, and Clerical
Minnesota	FY 99	\$ 2,400,000	50	Accountants, Collectors,
	FY 00	\$ 2,400,000		Attorneys, Customer
				Representative, Team Leaders,
				Clerical, and Receptionist
South Dakota	FY 99	*	3	Accountant, Collector, and
	FY 00	*		Clerical
	FY 99	\$ 358,300	2	Collectors then, Account
	FY 00	\$ 620,400	4	Clerk and Programmer

\* State did not want to reveal information!